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C O N F I D E N T I A L SECTION 01 OF 03 KABUL 001006

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STATE PASS OPIC FOR RCONNELLY AND DZAHNHEISER

E.O. 12958: DECL: 04/17/2013

TAGS: [PREL](#) [PGOV](#) [ECON](#) [EFIN](#) [AF](#)

SUBJECT: AMBASSADOR'S APRIL 8 MEETING WITH CAPTAIN DAOUD:
PRIVATE AIRLINE PROPOSAL FACES AFGHAN GOVERNMENT RESISTANCE

Classified By: AMBASSADOR ROBERT P. FINN FOR REASONS

1.5 (B) AND (D)

1. (C) Captain Daoud, an Afghan-American investor interested in establishing a private airline in Afghanistan, met with Ambassador on April 8. Daoud is seeking OPIC support for the establishment of Oxus Air, a private airline serving the U.S. and Europe from Afghanistan with a projected fleet of 12 Boeing aircraft. A projected second phase of operations would include domestic Afghan operations. Daoud told the Ambassador that the Deputy Minister of Civil Aviation, Raz Mohammad Alami, told him earlier in the week that he was required to own his entire fleet outright to secure an Afghan airline operation license.

2. (C) The Ambassador was surprised to learn of this restraint on competition, and asked if other airlines operating in Afghanistan were subject to this provision. Daoud answered that traditionally such decisions) whether to purchase or lease an aircraft fleet or a combination of both - were individual business decisions made by the airline operator. Daoud told Ambassador that he had scheduled a round of meetings, beginning with VP Amin Arsala on April 9. He noted that Civil Aviation, and Alami in particular, had had his application since August 2002. During the interim, Alami had asked him to save Ariana rather than competing with it and driving it out of existence. Daoud said that he told Alami that Ariana could only be saved if it was partially or fully privatized. Daoud reported his impression that under the administration of Minister Sadeq, Ariana,s functions were undermined by a web of patronage jobs, aircraft rerouting for VIP charters, extremely weak management and technical expertise, and enormous numbers of redundant public employees. Daoud added that Ariana had not maintained a balance sheet in 21 years.

3. (C) Daoud felt that only through either partial or complete transferral of Ariana to private hands would genuine management improvements, job creation and technological advancement be possible. Alami delayed repeatedly until the recent &decision8 that all planes must be owned in advance of licensing. (Note: The state of the civil aviation sector can be illustrated through additional recent examples. Daoud told of one Panjshiri Afghan who) reportedly with help from Defense Minister Fahim - was able to travel to India for Airbus pilot training, which he failed. Nonetheless, he then recruited an American friend to conduct a totally invalid &free-lance check-out8 for him in Afghanistan, and was issued a pilot,s license. This individual currently flies for Ariana. Another example is the dismal performance of the Civil Aviation Ministry,s candidates for Air Traffic Control Training in the U.S. Of 19 hand-picked candidates taking a USG-sponsored English aptitude test in Kabul on April 14, none passed) with the highest score a 38 out of a possible 100. Finally, Daoud noted that during his own Ariana flight from Frankfurt, 30-40 passengers were sitting in the aisles of the aircraft. Endnote.)

4. (C) The Ambassador asked why Daoud had not asked the Embassy for help earlier. Daoud said he tried calling a few times from the U.S. without success, but decided that to solve this problem he needed to come to Kabul. Daoud continued bashing Ariana for some time, alleging that one of its pilots was a former gunrunner for Ahmad Shah Masood and that Ariana planes frequently transported drug money. Daoud recounted that Finance Minister Ghani had suggested that Ariana could be auctioned. Daoud scoffed at this suggestion, noting that he had heard that Ghani,s brother, through intimidation and improper influence, had won similar rigged auctions in the recent past. The Ambassador responded that Heshmat Ghani might indeed be corrupt, but that Minister Ghani kept him at a distance and certainly did not condone his activities. Daoud replied that the father of both Heshmat and Ashraf Ghani was well known for corruption, which tainted the entire family. According to Daoud, &one or two people are stifling everything8.

15. (C) The Ambassador agreed that much of the government was still locked in old Soviet-era thinking about economic matters. The legacy of decades of state control of the economy, he added, continues to slow the pace of necessary economic reforms, and privatization reforms are among these. Daoud wants now to actively seek USG support for his efforts and noted he was planning to obtain an all-Boeing fleet for Oxus Airlines.

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